

University of Mississippi

**eGrove**

---

Guides, Handbooks and Manuals

American Institute of Certified Public  
Accountants (AICPA) Historical Collection

---

1974

## Public Accounting is Consulting

Wallace E. Olson

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_guides](https://egrove.olemiss.edu/aicpa_guides)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

Olson, Wallace E.

Public accounting is consulting. Address before the MAS Conference, Chicago, Oct. 2, 1974. cop. 2

PUBLIC ACCOUNTING IS CONSULTING

Wallace E. Olson, President  
American Institute of Certified Public Accountants

MAS Conference  
Hyatt Regency O'Hare Hotel  
Chicago, Illinois  
October 2, 1974

## PUBLIC ACCOUNTING IS CONSULTING

It is probably safe to assume that all of the participants in this conference have a substantial interest in the future status of management consulting services within CPA firms. Critical to that future is the attitude of CPAs toward management consulting and its place in a profession whose status is based upon the attest function.

No one really knows what the consensus of CPAs might be, or indeed, whether there is any consensus about management consulting. Nevertheless it might be useful to speculate about how CPAs feel toward consulting and the underlying reasons for their attitudes. This could provide better insight into our present circumstances and what might transpire within the profession in the future. Therefore, I intend to devote my remarks this noon toward an exploration of this subject.

First let me make it clear that when I speak of the attitude of CPAs I am not including the relatively small number who devote their full time to performing formal management consulting engagements. Based on a recent survey there were approximately 1,000 in this category. They can be assumed to be enthusiastic supporters of consulting or they would not be so engaged. Rather my remarks have reference to all other CPAs who are engaged in public practice.

It has been my experience that these CPAs are to a

great extent ambivalent about management consulting. Their feelings range from suspicion or hostility at worst to enthusiastic supporters where they have been the beneficiaries of successful consulting engagements. Some CPAs, particularly those specializing full time in tax services, are more or less indifferent since they do not view themselves as being encompassed within the term management consulting.

The preponderance of CPAs in public practice devote varying portions of their time to a combination of opinion audits and services relating to accounting, taxes, and informal counseling. Because of the overwhelming size of this group its attitude is a key factor.

As was noted this morning, most individuals in this group regard informal counseling as a natural and proper function of CPAs since nearly all of them engage in providing such services at various times. These same CPAs, however, tend to think at times of management consulting in another way as consisting of formal structured engagements requiring specialized skills outside the field of accounting. As a result they are inclined to look upon management consulting as something that has been superimposed on a profession of attestors.

This attitude may partially explain why they generally have an uneasy feeling about management consulting. They regard management consulting as being somewhat mysterious because it

involves knowledge and skills that may be foreign to them as CPAs. Understandably they are less than fully confident in offering such services and they are not totally certain that it does not somehow threaten their hard-won status as attestors.

If proof is needed that these nagging doubts are deep-seated and widespread, one need only to suggest membership status in the Institute for non-CPA consultants employed by CPA firms. You are all familiar with the hue and cry which this has provoked in the past which is reliable evidence that CPAs generally regard their profession as being one of attestors and not consultants.

When viewed in the light of the origins of the public accounting profession, this overall attitude is somewhat surprising. CPAs seem to assume that the sequence of evolution was that first there was public accounting and then much later consulting became an adjunct to the services of auditors. In fact, quite the reverse was true.

Public accounting in its earliest form consisted of consulting on accounting and bookkeeping matters and it was much later in its history before attestation for the benefit of third parties evolved and was carved out as a basis for establishing a separate organized profession. In the early days the owners of a business were small in number and there was a direct personal relationship between them and their public accountants. Public accountants did not think of themselves as serving third party

needs and their responsibilities were solely to the people who retained them. Theirs was essentially a consulting role although admittedly their types of services were generally confined to the field of accounting matters.

When public ownership of corporations came into being, the role of public accountants took on whole new dimensions. Passive ownership in the form of large numbers of public shareholders and the development of elaborate equity and debt structures for raising capital gave rise to a public need for independent assurances on the reliability of financial statements. Examination and licensing of independent auditors was clearly needed and state accountancy laws were passed. Thus, out of what was originally a group of consultants on accounting matters there grew a special function of attestation which was established as a separate profession.

Because the need for attestation was the basis for statutory regulation, that service became the dominant feature of public accounting, and consulting services came to be regarded as secondary. This was strongly reinforced by the passage of the Securities Acts in the 1930s.

In the meantime, however, the services of public accountants were given a big boost by the passage of the income tax laws. It is interesting to note that, even though tax services are simply a special form of business consulting, CPAs do not

generally think of it in terms of being a part of management consulting. Perhaps this is so because nearly all CPAs are trained in taxation and have at least some experience in providing tax services. Clearly, tax services are regarded as being within the proper scope of services of CPAs by nearly everyone, but it is seldom recognized that they are in fact a form of management consulting.

If one accepts the premise that tax services are a form of management consulting, it becomes apparent that the majority of services rendered by CPAs are in fact consulting. No one has exact statistics, but some surveys have disclosed the following breakdown:

Tax Services	15-20%
MAS	10%
Accounting and Auditing	70-75%

The 70-75% made up of accounting and auditing type services is composed of all the services rendered by CPA firms that are not specifically classified for internal accounting purposes as being tax or MAS. It has been estimated that no more than half of these services pertain directly to the performance of opinion audit engagements. The balance consists of unaudited financial statement engagements, informal business counseling and other services, all of which are basically consulting in nature and do not involve attestation for third party needs. As was noted this morning, a substantial portion of these services



are rendered to small privately-owned businesses by practitioners who have a relationship with their clients that is similar to that which existed in the early days of the profession.

The conclusion that the majority of services rendered by CPAs consists of forms of management consulting is inescapable. Why then don't CPAs think of themselves in the broader context of being business consultants rather than being simply auditors?

The answer probably lies in the fact that being a licensed auditor gives him a recognized professional status whereas being a consultant does not presently offer a standing of equivalent quality. Consultants may well view themselves as a full blown profession. But until they can distinguish by means of an accreditation process between the competent and the charlatans the public is not likely to accord consultants the same professional standing that CPAs enjoy.

There are, no doubt, many other facets to the somewhat puzzling attitude of CPAs toward consulting. For example, their educational preparation for entry to the profession is very heavily oriented to accounting and auditing. The CPA examination makes little or no attempt to test knowledge in consulting techniques. Gross fees are generally classified by firms in a manner that substantially understates the amounts attributable to consulting type services. These and other factors tend to reinforce the idea in the minds of CPAs that they are not consultants even though the majority of their work involves consulting

in some form.

If this attitude is the prevailing one, and I think it is, it has some unfortunate consequences for the public accounting profession. It results in lingering doubts on the part of many CPAs about the propriety of rendering management services that stray very far from financial and accounting matters. This, in turn, leads to mixed feelings about the place of management consulting in a CPA profession. And non-CPA specialists have not been welcomed to the ranks as members for fear of diluting the status of CPAs.

In the meantime, the management consulting firms are struggling to organize themselves into a cohesive profession. ACME opens its membership to CPA firms. The Institute of Management Consultants seeks and attracts individual CPAs as members. An effort is mounted to seek state legislation requiring the licensing of consultants. Development of a suitable examination for accreditation comes under consideration.

Admittedly, these developments are blunted by the substantial disagreements which exist within the ranks of management consulting firms. And the resources available to IMC are largely dependent upon the dues of CPA members. Nevertheless, the CPA profession cannot afford to ignore what is happening and it may be forced by changing circumstances to resolve its vacillating attitudes of the past.

What then should the accounting profession do about consulting? Should it simply go on doing what it has been doing and resist any attempts that may arise to restrict its right to render a part of its present scope of services? Or should it go on the offensive and attempt to move to a broader base for its professional status -- a base that encompasses consulting as well as attestation? And if the latter course is elected, is it feasible in the light of current CPA attitudes?

These are difficult questions to answer but I believe that as events unfold the profession will be forced to come to grips with them. I don't pretend to know the right answers but I do have some personal views that I would like to share with you.

I believe that over the coming years the accounting profession will be subjected to a number of pressures which will cause CPAs to change their present attitudes toward management consulting. Gradually they will come to recognize and accept the proposition that public accounting is in fact consulting -- that it consists of providing a variety of consulting services. This will not mean that the attest function will lose any of its present importance. To the contrary, the effectiveness and thereby the credibility of audits will be greatly enhanced by the combining of the skills of auditors with those of consulting specialists.

What is the nature of the pressures that cause me to

think that these changes will occur? One such pressure is rooted in the need to improve the credibility of audits. Disasters such as Equity Funding have raised searching questions in the business community which are bound to have an impact on CPAs. The profession can ill afford to stand pat on audit techniques that were developed decades ago and have remained relatively unchanged.

Skills from other disciplines will have to be applied to auditing if better results are to be achieved. It is not unreasonable to foresee that engineers, economists, lawyers, appraisers and behavioral scientists, to name a few, may all have to be employed for various phases of an audit. Computer specialists and statistical sampling experts have already had their impact on auditing and the new pension law virtually guarantees that actuaries will play an even more important role in the future.

Not all of these skills will necessarily be represented on the payrolls of CPA firms. But it seems more than likely that at least some of the more frequently needed skills will be maintained in-house. Thus it seems inevitable that a multi-discipline approach to practice will be the way of the future.

Another source of influence that will change the attitudes of CPAs is the pressing need for improving the quality of financial communication. Attempts to meet this need have so far consisted principally of the development of a substantial body

of detailed, and sometimes complex, accounting and reporting rules. The old APB and its successor, the FASB, as well as the SEC, have continued the drive to plug all the gaps in GAAP.

Both the SEC and the profession are proceeding on the basic assumption that full and fair disclosure will protect the mass of investors. This may not be a totally valid assumption, however, since there is reason to believe that quantity of information does not necessarily result in quality communication. Also there is basis for doubt as to how much reliance the average investor places on his own analysis and understanding of financial statements.

I believe that we are going to recognize that a more effective solution lies in the direction of an expansion of the role of auditors. This is already foreshadowed by the prevalent view outside the profession that auditors ought to go beyond expressions of opinions of mere compliance with standards. Responsibility to evaluate and report on substance is what third party users are seeking. They want an expert to tell them what it all means. They want someone to put the pieces of the puzzle together for them.

To meet this need the CPA's role will have to be transformed to that of an independent analyst and reporter on a company's affairs. Such a role will entail the use of a variety of skills and will of necessity lead to a marriage of the attest function with the services of management consultants. Present

day financial analysts would not be completely supplanted by this transformation since their expertise in the securities markets would continue to be required.

A somewhat similar pressure on the attitudes of auditors is the current interest in new forms of limited reviews to provide levels of assurance on financial information that are less than that intended by opinion audits. Assurances on forecasts, interim quarterly financial reports and financial data included in annual reports outside the financial statements are good examples of the new types of services that involve what I refer to as limited reviews. To provide some of these services skills beyond the traditional training of auditors may well be required. Here again there will be a strong tendency of CPA firms to employ the necessary specialists to effectively develop a team approach to performing new and more complex engagements.

As these developments are taking place we may also witness the emergence of a licensing requirement for management consultants. I believe this is more likely to happen than not.

It is true that third party interests may not be directly involved in consulting engagements and clients should be able to look after their own interests in engaging the services of consultants. But the old caveat of "buyer beware" is rapidly losing its validity in a society that places a high priority on consumer protection. Any group that serves the general public today is not likely to escape some form of regulation for very

long. For this reason some form of licensing of consultants may not be far away, especially when it is being advocated by at least a portion of those currently in practice.

In my view arguments that accreditation of consultants is not feasible because of the diversity of subject matters involved are not likely to prevail. Surely it must be possible to develop a means of determining competence in this field just as it is in many others that involve similar difficulties.

It might be that a licensing requirement will be the first of the various pressures that I have described which will force CPAs to take a new look at how the present scope of services fits together. They will have to think about the long-term viability of more than one national organization representing members of the same licensed group. They will have to face the question of how the CPA certificate and a consultant's license fit together. They will have to find some way to rationalize a profession that is based on two licenses rather than one.

Their answer may be to narrow the public accounting profession to tax services and the attest function; but I think not. Competitive forces will almost certainly cause CPAs to adapt to the new circumstances by expanding rather than contracting their services. Indeed, I fully expect that the profession will decide to move forward toward recognition of specialization and will develop the necessary examinations or other means of establishing competence. As you heard this morning, some preliminary

work is already being done along these lines by the MAS Division. The Tax Division has also begun a preliminary study toward this end.

These actions are all to the good for they will hasten the day when a greater degree of order, discipline and standards will be established in all areas of practice. They will also force CPAs to recognize their heritage of having been spawned in consulting and bring about a profound change in their approach to their profession.

Still another development that could generate a rude awakening within the public accounting profession would be the entrance of management consulting firms into the field of attestation. So far as I am aware, nothing would prevent this from happening today assuming a firm had some CPA partners. Mixed partnerships with non-CPAs are permitted and in many states anyone can issue opinions on financial statements. The only restriction would be that a firm would not be permitted to refer to itself as Certified Public Accountants.

This possibility should not be underestimated in a day when consulting firms have become subsidiaries of bank holding companies. What would happen, for example, if a consulting firm persuaded a firm of CPAs to merge with it? Would this be the beginning of a merger of CPAs and consultants into a single profession? Should this possibility be anticipated? Should it be encouraged or discouraged?



Given the present self images that CPAs and consultants have of themselves the prospects of fusion of the two groups might not appear to be too bright. But future developments could have sufficient impact on their thinking to bring about substantial changes in their approach to practice. After all, there is little difference in the operating procedures of the two types of firms. And there might be strong incentives for consulting firms to gain access to a ready-made market of audit clients and for CPA firms to acquire an instant supply of diversified skills. This scenario might not actually happen but I wouldn't want to bet that it won't.

#### SUMMARY

Let me try to summarize what I have been saying. The public accounting profession currently views itself as a profession of attestors that incidentally provides management consulting services because it is convenient and because it helps them to give better service to their clients. In fact, the majority of services of CPA firms consists of forms of consulting. This is overshadowed, however, by the fact that the basis for professional status is the license to attest to financial statements.

One or more future developments may force CPAs to face up to some difficult questions about their role and how to deal with the emergence of a full professional status for management

consultants. These developments may consist of:

- A. New pressures relating to the attest function.
- B. Adoption of a licensing requirement for management consultants.
- C. Entrance of management consulting firms into the field of attestation.

No one can predict with certainty whether these developments will in fact occur or what changes they will bring about. But I am confident that we will witness at least a gradual change in the public accounting profession. I believe that:

- 1. The profession will proceed toward formal recognition of specialization.
- 2. The need to employ a variety of disciplines to improve the effectiveness of audits will lead to a recognition that the profession is essentially engaged in consulting which requires a multi-discipline approach to practice.
- 3. Either the CPA examination will be broadened to incorporate coverage of consulting or else new examinations will be developed to cover the various aspects of consulting engagements.
- 4. Persons with a variety of educational backgrounds will be brought into full membership in the profession through a set of examinations that may cover a combination of basic general knowledge and the functional and technical knowledge required in an area of specialization.
- 5. In due time CPAs will come to look at themselves as consultants on all aspects of business management, a special part of which is attestation of business data.

In short, I think the profession will ultimately come full circle back to its heritage. Those of you who now devote your full energies to management consulting will find your roles greatly enhanced. But you too will have to adjust your thinking to look at consulting in a broader context -- to stop thinking of MAS as a small specialized elite group -- to think in terms of a team approach to practice -- to not look at attestation with a somewhat disdainful eye but to recognize that it is in the broadest sense providing consultation to third parties.

Auditors and management consultants have common interests and have more reasons to be a single profession than to go their separate ways as two professions. When this fact is recognized by the two groups it will not be too difficult to bring order out of what is now a very confusing picture.